

May 5, 2003

The Honorable John Snow
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Robert Zoellick
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Secretary Snow and Ambassador Zoellick:

As you know, Congress has been working hard to develop a response to the World Trade Organization decisions involving the Foreign Sales Corporation tax provisions and its successor, the Extraterritorial Income Exclusion Act of 2000.

One approach that seems to be gaining currency is to implement a domestic manufacturing and production income exclusion. My office has been studying the trade issues involved with this issue - particularly with respect to our WTO obligations. Our analysis is that such an approach is fully consistent with our WTO obligations. I would be happy to discuss this issue with you.

At the same time, I think it is critically important that the Administration allow Congress to work through this important issue without unnecessary interference. In the past, some in the Administration have suggested that other approaches under consideration did not comply with WTO rulings, going so far as to publish a detailed legal analysis to that effect. In my view, this is wholly inappropriate. To the extent that U.S. legislation was ever to be challenged in the WTO, these public statements would only be used against us - and would give ammunition to our trading partners where none might otherwise exist.

I trust that we can continue to work cooperatively to address this difficult issue.

Sincerely,

Max Baucus